

**Testimony of  
Massachusetts Lieutenant Governor  
Jane Swift**

**Opposing Taxation of Internet Commerce**

**U.S. Senate Committee on Commerce, Science  
and Transportation  
Wednesday, March 14, 2001**

*As Prepared for Delivery*

Thank you, Chairman McCain and members of the committee for giving me this opportunity to speak with you on the important issue of Internet taxation. This is an issue of particular importance to my home state of Massachusetts, and I am glad to have the chance to speak here on behalf of our residents.

Massachusetts has been at the leading edge of the high-technology revolution, and our residents have benefited tremendously from the infusion of high-tech jobs into the state. Currently there are 185,000 non-manufacturing high technology jobs in Massachusetts, an increase of roughly 20,000 since last year. These positions represent well-paying, quality jobs; jobs that allow people to live the American dream, support their families, and enjoy a quality of life that no numbers can quantify. Over the past decade, the presence of these companies has brought new life to aging mill towns like North Adams and Lowell, and has helped drive the longest economic expansion in American history.

I am deeply concerned that a tax on the Internet will serve to hinder growth in this important sector at the time when it can least afford it. The proper role of Government in this emerging industry is to encourage its growth. It would be a grave mistake on our part to start taxing Internet commerce before it has even had a chance to establish itself.

We have seen a precipitous decline in the NASDAQ over the past year. This week it dipped below the 2000 mark for the first time since 1998, and has shown no signs of recovery in the near future. Some dot-coms that were once the toast of Wall Street are now auctioning off the remains of their companies, and the imagined threat to traditional brick and mortar stores has all but disappeared.

While other segments of the high tech sector have been able to absorb some of these company closings, it would be a mistake to drive remaining businesses out of business through added taxes we don't need. That would be the equivalent of tossing them an anchor when they need a life vest. Passing a tax on Internet sales will put people in my state out of work; and they would be losing their jobs just because government can't keep its hand out of the cookie jar.

The impact of Internet sales on current revenues is negligible. We have found in Massachusetts that the impact of Internet commerce on traditional retailers has in reality been nearly insignificant. Retail sales this past holiday season held steady, despite some signs of a slowing economy.

We have found that the positive effects of high technology sectors have far outweighed any perceived detriment to local retailers or to state sales tax revenues. These firms have rejuvenated crumbling cities, and have provided high-quality, high-paying jobs to thousands. This is the kind of economic activity we need to develop across the country, and I fail to see how taxing that activity will provide the needed encouragement.

I am especially skeptical of the need for increased taxes at a time when state revenues have been reaching record highs. I believe now is the time to lower the tax burden on our citizens, not raise it. Republican Governors have worked hard over the last decade to cut tax rates for

the citizens of Massachusetts, and I would encourage the Senate to act to cut federal taxes as well.

Most of the concern behind the push for Internet taxation came from state fears that dot-com companies were taking over the economy, and that there would be no traditional sales revenues left. This has not been the case. Despite the Internet, people still leave their homes to go shopping. The new economy juggernaut has slowed to a walk, and most people have realized that previous fears of an economic revolution were unfounded. Brick and mortar stores still have their place in our communities. They also provide jobs and they provide the personal touch that people will always need, as well as the immediacy of not having to wait for a purchase to be delivered.

Beyond the detrimental effect that Internet taxation will have on this growing segment of our high-tech economy, I also question the wisdom of plans that are as complex as that proposed by the NGA. The complexity of these interstate sales taxes is something that the government should not be undertaking. With all due respect to my colleagues, I am not certain that establishing a large bureaucracy to deal with online sales taxes is what this country needs. It seems to me that one IRS is enough for Washington. We don't need a second.

The necessity of federal bureaucracy for online taxation also raises substantial concerns over privacy issues. I do not believe that people want the government keeping track of every item they purchase online, nor do I believe that this Orwellian oversight would encourage the sales of current electronic retailers. Internet companies have to address privacy and security concerns, and big government involvement makes that considerably more difficult. Customers who aren't driven away by the tax, may be driven away by their concerns for privacy.

I would encourage all the members of this committee to look at the long-range benefits of growing our high-tech economy, and consider the ramifications of burdening that sector with further taxes. I hope that you will come to the conclusion, as I have, that any short-term revenues do not make up for the economic cost of restricting Internet growth. I would encourage you to enact a permanent ban on Internet taxation.

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